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201241Z May 05

ACTION EAP-00

INFO	LOG-00	NP-00	AID-00	CIAE-00	CTME-00	INL-00	DODE-00
ITCE-00	DOTE-00	DS-00	EB-00	EXME-00	EUR-00	OIGO-00	
E-00	FAAAE-00	FBIE-00	UTED-00	VC-00	FRB-00	H-00	
TEDE-00	INR-00	LAB-01	VCE-00	AC-00	NSAE-00	OES-00	
OMB-00	NIMA-00	OPIC-01	PER-00	ACE-00	SP-00	IRM-00	
SSO-00	STR-00	TRSE-00	FMP-00	BHG-00	IIP-00	DSCC-00	
PRM-00	DRL-00	G-00	NFAT-00	SAS-00	SWCI-00	/002W	

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FM AMCONSUL HO CHI MINH CITY  
TO SECSTATE WASHDC IMMEDIATE 1501

USDOC WASHDC IMMEDIATE

INFO AMEMBASSY HANOI PRIORITY  
DEPT OF TRANSPORTATION WASHDC PRIORITY  
NSC WASHDC PRIORITY  
AMEMBASSY PARIS PRIORITY  
AMEMBASSY TOKYO  
AMEMBASSY BANGKOK

UNCLAS HO CHI MINH CITY 000529

SIPDIS

SENSITIVE

DEPARTMENT PASS EXIM BANK AND OPIC  
DEPARTMENT PASS USTR, ELENA BRYAN  
STATE FOR EAP/BCLTV AND EB/TPP/ABT/BTT  
USDOC FOR 4430/MAC/ASIA/OPB/VLC/HPPHO  
USDOC FOR ADVOCACY CENTER  
PARIS FOR USOECD

E.O. 12958: N/A  
TAGS: [ETRD](#) [BEXP](#) [BTIO](#) [EAID](#) [PREL](#) [VM](#)  
SUBJECT: U.S. EXPORTER MENACED BY JAPANESE ODA

¶11. (U) This is an action request for State, Commerce and ExIm Bank. See paragraphs 2 and 11.

¶12. (U) SUMMARY: A U.S. manufacturer is about to lose a \$4.6 million deal to supply jetways or passenger boarding bridges (PBB's) for a new terminal at HCMC's Tan Son Nhat Airport. Vietnamese airport authorities want the U.S. PBBs, but are under extreme pressure to switch to Japanese PBBs from the Japanese company overseeing the terminal project. Though the original project contract stipulated that U.S. PBBs must be used, the Japanese contractor now claims Japanese PBBs must be used to qualify to meet the terms of the loan from the Japanese Bank for International Cooperation (JBIC) that is financing the project. A U.S. company stands to lose substantial business as a result of manipulation of loan requirements. Post requests Washington's assistance in formulating a strategy to save this deal, which is the deal the Vietnamese themselves prefer. END SUMMARY.

¶13. (U) Thirteen years ago when the Southern Airports Authority (SAA) and Civil Aviation Authority of Vietnam (CAAV) went looking for financing to support the construction of a new terminal at Tan Son Nhat Airport in Ho Chi Minh City, it was delighted to receive an offer that proved in the end to be too good to be true. Japan's Japanese Bank for International Cooperation (JBIC) came to CAAV with a soft loan proposal to finance 85 percent of the \$216 million project that included a 40-year loan at interest rates below one percent and ten year grace period. This was a tied aid loan, meaning that the main project contractor and any consulting service providers must be Japanese and under standard JBIC terms at least 51 percent of the total project cost must be sourced from Japan.

¶14. (U) Compared to prevailing commercial lending rates at much higher interest rates and no grace period, the JBIC loan must have seemed like a no-brainer to the Vietnamese airport authorities. A loan agreement between JBIC and the Vietnam Ministry of Finance was signed on March 29, 2002 for 22.768 billion yen, and a public tender for the turnkey construction contract was issued in mid-¶2004. The winning bidder was Kajima Taisei Obayashi Mieda (KTOM), a Japanese joint venture company formed exclusively for the purpose of performing this contract in Vietnam. We understand that even before the tender was announced, it was generally known within the Japanese business community that by agreement KTOM would be the winning bidder.

¶15. (U) Following the formal award, KTOM began negotiating a detailed contract with the SAA. During the negotiations, SAA specified its requirement for passenger boarding bridges (PBBs) manufactured by FMC Technologies, Inc. -Jetway, based in Ogden, Utah. SAA had previously purchased eight PBBs from FMC and was pleased with their performance. They wanted to stick with FMC PBBs not only because of their proven quality, but also to minimize training and other ancillary costs by having a unified

system. SAA provided KTOM with catalogues and other materials from FMC to clearly specify the models to be supplied. KTOM accepted these specifications as part of the contract, which was eventually signed with SAA on August 3, 2004. The contract price was about \$182.6 million.

¶6. (U) Construction of the new terminal commenced in September 2004. That's when the problems began for SAA and its chosen supplier, FMC. Without warning, KTOM stopped talking with FMC and notified SAA that it wanted to use a Japanese supplier of PBBs, Shinmaywa, instead of FMC. The explanation for this switch was that they needed to buy from a Japanese supplier in order to comply with the 51 percent minimum Japanese content rule for JBIC loans. SAA wrote to KTOM that this substitution of Shimaywa for FMC was unacceptable, and they insisted that KTOM comply with the terms of their contract. However, KTOM refused to budge, and basically ignored SAA's pleas.

¶7. (U) Using FMC's offer price to KTOM of \$4.6 million for its PBBs, the PBBs represent approximately 2.5 percent of the total contract. Both FMC and SAA argued to KTOM that they could easily satisfy the 51 percent requirement by sourcing other systems from Japan. KTOM replied to FMC that they had already made the decision to source from Shinmaywa and that any further discussion on this subject was closed. KTOM then gave an ultimatum to SAA that if it did not sign off on the contract substitution then the entire project would be delayed and that the fault would lie entirely with SAA.

¶8. (U) FMC sought the assistance of the USG in Vietnam beginning in early 2005. ConGen Commercial Officer met with SAA officials to discuss this situation. At that meeting, SAA officials admitted that they were being squeezed by KTOM and that they did not have any practical leverage to prevent KTOM from ignoring the contract terms. They asked for USG assistance to put pressure on JBIC officials to comply with the contract. There was also concern that KTOM and JBIC would bring pressure to bear at the higher government levels in Hanoi to force SAA to accept Shinmaywa. Ambassador Marine met with the Minister of Transportation Dao Dinh Binh to discuss this matter and urged him to hold firm on the contract specifications, but Binh said that the Ministry would defer to SAA on this issue. Embassy officials also raised this issue with the Director General of CAAV in Hanoi. At the same time, Embassy Tokyo raised this issue with JBIC. The Japanese officials, in turn, referred the issue back to Vietnam.

¶9. (U) Over the last four months, SAA and KTOM exchanged several letters, each time disagreeing on the substitution of Shinmaywa for FMC. On May 19 HCMC CommOff met again with FMC and SAA officials to discuss the situation. An SAA senior official told us that he was now under extreme pressure from KTOM and JBIC to sign off on the final equipment supply list that includes Shinmaywa by the end of May. He also said that he is under pressure from the central government authorities to complete the project on schedule, and that any further delay is unacceptable.

¶10. (SBU) COMMENT: This situation is a textbook example of unfair competitive practices in ODA procurement. In this case, FMC and SAA were hit with a classic bait and switch. Once Vietnam had accepted the terms of the tied aid loan, the Japanese consortium and lender held all the cards and SAA finds itself unable to force KTOM or JBIC to comply with the terms of the agreement. We understand that the competing Japanese PBBs are actually more expensive than the FMC product and we would guess that the price charged for other inputs to this project more than makes up for the grant element in the financing. END COMMENT.

¶11. (SBU) ACTION REQUEST: SAA only has ten more days to sign the equipment supply list or it will jeopardize the timely completion of the project. Post requests Washington agencies coordinate on an immediate initiative to get the Japanese to back down and honor the original construction specifications. KTOM and JBIC are abusing ODA procedures at the expense of both the U.S. supplier and the recipient country. Post requests any further guidance on how pressure may be brought to bear in support of FMC.

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